Oil and Gas News Briefs
Compiled by Larry Persily
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U.S. wants to sell more LNG, but Japan may not need it

(Wall Street Journal; Feb. 4) - In early January, a ship carrying liquefied natural gas from Louisiana docked in Japan, where it will fuel a power plant owned by Chubu Electric. LNG has been coming to Japan for decades, but this was the first time it came from anywhere in the U.S. other than Alaska and the first LNG shipment of American shale gas. U.S. natural gas is playing a role in a transformed energy market for Japan.

Ample supplies of gas from around the world are bringing down prices for Japanese buyers previously at the mercy of major oil and gas players. The prospects of an LNG glut and low prices could be propelled further by U.S. shale gas exports and the energy-friendly administration of President Donald Trump, who has said Japan doesn't buy enough U.S. products. But buyers in Japan "now have more options and can say no to what's being negotiated. They can walk away," said Anne Hung, a partner with the law firm Baker & McKenzie, who advises Japanese companies on oil and gas deals.

The changing market isn't good news for everyone, including those getting into the game late. Companies can get whipsawed by unexpected price swings, such as the one that dropped the spot price of LNG in Japan from nearly $20 per million Btu in 2014 to below $5 in early 2016 before a recovery late in the year. The current price is $8. After misreading prices for their LNG investments, trading companies Mitsubishi Corp. and Mitsui & Co. both recorded multibillion-dollar losses in the year ended March 2016.

Japanese utilities have signed to buy 14 million tons of U.S. LNG a year by 2020, about one-fifth of projected U.S. exports. The issue now is oversupply. Analysts say Japan might not need all the U.S. gas it has committed to buy because contracts with other suppliers fill demand and its slow-growing economy is using less electricity each year.

Qatar will merge two LNG producers to improve competitiveness

(Nikkei Asian Review; Feb. 2) - Qatar's state oil company aims to merge a pair of massive liquefied natural gas subsidiaries by the end of this year, hoping to improve efficiency and withstand tougher international competition in LNG markets. Qatar Petroleum's decision to merge Qatargas and RasGas follows moves by Australian and U.S. rivals to increase production, aggravating a persistent global glut and low prices.

With annual production capacity reaching 41 million tonnes, Qatargas is the world's biggest LNG producer, followed by RasGas, with capacity of 36 million tonnes. Late last year, Qatar Petroleum said it wanted to form a united front in the international market. The merged company will inherit the name Qatargas. There is little reason to think low prices and the global oversupply will change anytime soon. Australia is expected to overtake Qatar as the world's No. 1 LNG exporter by the end of the decade. Other countries, including Russia and Indonesia, are also expanding their production facilities.

Qatar has maintained a strong position thanks to its long-term supply contracts with overseas customers. But with key contracts approaching their expiration dates, the outlook is growing murky. Qatar, which depends heavily on natural gas revenues, needs to adapt with the times. The government expects to run a budget deficit for the second straight year in 2017. According to Qatargas' website, its shareholders besides Qatar Petroleum include ExxonMobil, Japanese trading houses Marubeni and Mitsui & Co., and Japanese oil companies Idemitsu Kosan and Cosmo Oil.

Sierra Club in court to block LNG project in Texas

(Greenwire; Feb. 2) - Environmentalists have asked a panel of federal judges to strike down Department of Energy approval of liquefied natural gas exports from a terminal in Texas. Attorneys for the Sierra Club argued in court Feb. 2 that the department failed to adequately consider the indirect and cumulative environmental damage from increased LNG exports. The project in Freeport, Texas, which is under construction and scheduled to start up next year, could export 146 billion cubic feet of gas as LNG per year.

"The department in its own words did not identify or characterize those impacts," Nathan Matthews, a staff attorney at the Sierra Club, said during oral arguments in the U.S. Court of Appeals for the District of Columbia Circuit. The Sierra Club is challenging the decisions under the National Environmental Policy Act, which requires environmental reviews of major federal actions, and the Natural Gas Act, under which the department has to find that the proposed exports would be in the public interest.

The group has failed in multiple legal efforts to halt LNG export projects, last year losing a series of cases challenging projects in Texas and other states. Previous unsuccessful litigation has challenged decisions by the Federal Energy Regulatory Commission, which conducts environmental analyses of LNG plants, and not the Department of Energy, which governs gas exports. The Sierra Club argues the federal environmental analysis needs to consider not just the LNG plant, but the actual upstream gas production and its emissions. A court decision is expected in the next few months.

FERC gives staff more authority until commission reaches a quorum

(Greenwire; Feb. 3) - The Federal Energy Regulatory Commission took the rare step of granting staff more authority to address complex energy matters after Norman Bay, the agency's former chairman, leaves his post Feb. 3. Bay's departure will leave the commission without a quorum to make high-profile decisions on pipelines, mergers and other matters — a situation that has ratcheted up pressure on the Trump administration to quickly fill three Republican vacancies at FERC.

The White House has said nothing about FERC, and some industry insiders have said it could be months before names are floated. Under the Feb. 3 order, FERC staff will be able to address tariffs and rate filings, waiver requests and uncontested settlements, and extend the time on some actions. The order also spells out that "limited commission operations" will continue, including inspecting and responding to incidents at LNG and hydroelectric facilities, as well as activities tied to safety and protection of property.

The order does not, however, allow staff to issue certificates or issue new policies or rulemakings. The authority is also temporary and will not last more than 14 days after the commission gets a quorum, according to the order. The agency's decision to issue the order is rare. The last time FERC took similar action was 1993.

Hong Kong company proposes small LNG export plant in Louisiana

(Houma Today; Louisiana; Jan. 31) - An $800 million natural gas liquefaction plant and export terminal is proposed for Port Fourchon, La. Energy World’s plant would produce up to 2 million tonnes of LNG per year for export, port officials said in a Jan. 31 news release. A smaller plant would produce LNG to fuel a new generation of offshore supply boats. Energy World, headquartered in Hong Kong, owns an interest in power plants in Asia. Its website says the company sees a future in supplying LNG to the Asia market.

"It is still very early in the planning and regulatory process,” said Chett Chaisson, executive director of the area port commission. “There are a lot of regulatory steps that need to be taken first, and the process will be time consuming." The news comes as the area continues to reel from an oil bust that has stripped an estimated 12,000 jobs from the local economy since mid-2014. The port has worked with Energy World since April 2016, when the company first approached officials about the proposed facility.

The LNG would initially be exported to the company's gas-fired power plants across the Asia-Pacific region, Energy World said. The fuel would also be sold for use as a marine fuel in the U.S. "Eventually, we hope to export to Jamaica and the wider Caribbean, where Energy World is separately proposing to develop an LNG hub terminal and gas-fired power plants." The company has not yet applied to the Federal Energy Regulatory Commission for project approval or the Department of Energy for export authorization.

Proposed LNG project caught in fight between First Nation leaders

(Globe and Mail; Canada; Feb. 2) - A group of more than 20 hereditary chiefs and matriarchs in the Lax Kw'alaams First Nation is challenging an aboriginal leader who has sued to block a proposed liquefied natural gas project in British Columbia. The group of the Gitwilgyoots tribe of the Lax Kw'alaams is upset at Donald Wesley, alleging he does not have authority to act on behalf of the tribe. Wesley is a vocal critic of Pacific NorthWest LNG's proposal to build a terminal on Lelu Island near Prince Rupert, B.C.

Wesley has garnered international attention for opposing the project, which is led by Malaysia's state-owned Petronas. He started a protest camp on Lelu Island in 2015. His lawsuit in federal court names as defendants the federal cabinet, federal Environment Minister, Canadian Environmental Assessment Agency and Pacific NorthWest LNG. But in a recent affidavit filed in court, Carl Sampson Sr. said he is the head chief of the Gitwilgyoots tribe, alleging Wesley improperly claims to be head chief.

"Donald Wesley does not represent or speak for the Gitwilgyoots," said Sampson, who has filed a motion to derail Wesley's quest to quash federal approval of the project. In his court response, Wesley argues he holds the rightful claim as tribal chief, claiming he was "authorized to speak for members of the Gitwilgyoots tribe at a Nov. 1, 2008, feast in the Lax Kw'alaams village." Sampson disputes that claim. B.C. officials expect Pacific NorthWest LNG to decide this summer whether to go ahead with the project.

Australian LNG producer sees big market in mining industry

(The West Australian; Feb. 1) – Australia's Woodside Petroleum is poised to truck LNG to customers in the country's Pilbara mining region in a bid to break the area's 800-million-gallon-a-year addiction to diesel fuel. Woodside CEO Peter Coleman said Jan. 31 that design work had started for a facility to load trucks with LNG at the company's Pluto natural gas liquefaction plant near Karratha. It's part of an effort to develop new markets for Woodside's production.

LNG has been traditionally delivered by ship in large volumes to overseas buyers. But Woodside looked at alternative markets and found there is latent demand for LNG, partly driven by the desire to reduce pollution and greenhouse-gas emissions. "The product was highly sought after but not accessible," Coleman said. For new markets the industry needs to "break bulk" and deliver LNG in the quantities customers wanted.

The new loading facility at Pluto will allow trucks to deliver LNG for the iron ore industry's diesel-powered trucks, locomotives and electricity stations. Coleman also sees remote communities and hospitals as potential customers. "I can put it on the back of a flatbed truck with an ISO container and go on and just replace it like you do with your gas bottle," he said. Coleman sees fueling the iron ore carriers as "the big prize." LNG-filled barges would be used to refuel the ships.

East Coast legislatures consider regulation of fracking

(EnergyWire; Feb. 3) - As the oil industry recovers from a two-year price bust, a handful of East Coast states are grappling with how to regulate shale drilling, in case it spreads into their territory. Maryland, Virginia, Georgia and Florida historically haven't seen any large-scale oil or gas development, but all of them are working on legislation to either regulate or block hydraulic fracturing and other aspects of shale drilling.

Maryland legislators could start debating next week whether to extend that state’s moratorium on hydraulic fracturing, enact a permanent ban or allow it under tight regulations. Parts of western Maryland sit over the Marcellus Shale gas field, and the Legislature in 2015 imposed a temporary ban on development.

In Virginia, environmentalists are hoping to block two bills that would exempt fracking chemicals from disclosure. There's been no shale drilling in Virginia, but the state also sits over part of the Marcellus Shale and has another shale field called the Taylorsville Basin in a handful of eastern counties. The state Department of Mines, Minerals and Energy began writing fracking regulations last year in case drilling begins.

In George, Rep. John Meadows has introduced a bill that would require the state to draft regulations on hydraulic fracturing. It also would impose a severance tax on oil and gas production and guarantee that cities and counties could regulate drilling within their borders. Meanwhile, Florida is gearing up for another debate about banning fracking.

Ontario communities upset at loss of loan program for gas project

(The Chronicle Journal; Thunder Bay, Ontario; Jan. 31) - Communities along Canada’s northern shore of Lake Superior are upset with the Ontario government’s Jan. 30 reduction in a program intended to ensure the future of a natural gas delivery project and the economic viability of several towns. The province’s failure to fully launch the $230 million Natural Gas Access program has hurt the future for communities hoping to develop a liquefied natural gas distribution project, municipal leaders claim.

Gaining access to gas is key to survival and prosperity for the 11,000-plus residents and businesses struggling with high energy bills, the leaders said. The loan program “was going to finance a creative solution to connect communities and businesses to gas, grow the northern economy, support economic development and create jobs,” said Chris Wray, administrator of the community of Wawa, population 3,000. Instead of $230 million in provincial loans and grants, the program will provide $100 million in grants.

For more than two years, the communities of Marathon, Schreiber, Manitouwadge, Terrace Bay and Wawa have been working with Northeast Midstream on an LNG distribution project for trucked deliveries to the communities not served by pipelines.

The anticipated savings were estimated at more than $6 million a year for homeowners, businesses and municipalities, said a feasibility study supported by the Northern Ontario Heritage Fund Corp. The viability of the project is now in jeopardy, municipal leaders claim, after the government's last-minute announcement to cancel the loan program.

ExxonMobil sees big future in shale oil basin in Texas, New Mexico

(Houston Chronicle; Jan. 31) – In coming years, ExxonMobil's newly purchased oil land in New Mexico and West Texas could raise its U.S. shale oil production to as much as 10 percent of its oil and gas output worldwide. It would take more than a decade to reach a production plateau of 350,000 barrels of oil equivalent a day from the thousands of coveted acres it bought in the Delaware Basin, where the previous owners, the wealthy Bass family of Fort Worth, had only developed 5 percent of the oil land.

"We want to get to it right away," Jeff Woodbury, an ExxonMobil spokesman, said during an investors call Jan. 31. The company plans to begin ramping up oil production in the Delaware Basin this year and, over time, it could bring on 15 rigs or more in the region. Woodbury said the company plans to drill more than 85 percent of its wells at least two miles sideways "because the acreage is not constrained by traditional land lease issues." With the addition of the acreage, the company now has some 4,500 wells that could make a 10 percent return with oil $40 a barrel, he said.

U.S. oil exports could grow to 800,000 barrels a day in 2017

(Bloomberg; Feb. 1) - U.S. crude oil exports are poised to surpass production in four OPEC nations in 2017 and may grow even more if President Trump honors pledges to ease drilling restrictions and maximize output. The U.S. could sell as much as 800,000 barrels a day overseas this year, according to four analysts surveyed by Bloomberg. That's more than producers Libya, Qatar, Ecuador and Gabon each pumped in December. The U.S. exported 527,000 barrels a day in the first 11 months of 2016.

Chalk it all up to a resurgence in shale oil and gas. U.S. output will rebound to more than 9 million barrels a day in 2017 after sliding 5.6 percent to 8.87 million barrels in 2016, the Energy Information Administration estimates. And since restrictions on U.S. crude exports were lifted in late 2015, domestic producers are free to seek buyers in Europe, Asia and Latin America, which are on the lookout for alternate suppliers after OPEC and non-OPEC producers agreed to trim 2017 output.

"Godzilla is even taller in person," Vikas Dwivedi, senior analyst at Macquarie Capital (USA), said in a telephone interview from Houston. Macquarie sees U.S. annual output reaching 9.37 million, while Turner, Mason & Co. and Lipow Oil Associates each put it around 9 million. Wood Mackenzie forecast a more conservative 8.75 million. The increased supply is likely to pressure prices of domestic crude, said Afolabi Ogunnaike, Wood Mackenzie’s senior research analyst for Americas refining and oil markets.